

# PHOENIX MARKET GRAM

Office & Industrial • Equity & Debt



Q2 2012  
CONFIDENTIAL

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## OFFICE AT A GLANCE

- Metro Phoenix ended 2011 with 1,079,253 square feet of net absorption, on par with 2003 averaging just less than 1.3 million square feet. Despite the consistent absorption over the last six quarters, asking rental rates continue to decline and have given back a total of 21% since their peak of \$25.89 per square foot in 2008.
- The Scottsdale and Tempe submarkets continue to outpace the rest of the market with at least one submarket in each city increasing asking rates. Deer Valley is also showing signs of improvement by stabilizing rents and posting the largest absorption in the Second Quarter, 166,648 square feet.

OFFICE STATS • METROPOLITAN PHOENIX			
	Q2 2012	Q2 2011	Trend
Weighted Average Asking Rent	\$20.36	\$21.35	↓ <sup>(1)</sup>
Overall Net Absorption in Quarter	357,236	457,374	↓
Overall Net Absorption YTD	566,156	321,122	↑
Direct Vacancy	24.5%	25.1%	↓
Overall Vacancy	25.7%	26.1%	↓
YTD Construction Completions	0	165,290	↓
Under Construction	0	456,780	↓

(1) Asking rents lag effective rents

## OFFICE / BACK-OFFICE • SIGNIFICANT Q2 2012 SALE TRANSACTIONS

Project	Submarket	Buyer	Seller	Price	\$/SF	COE	SF	Cap Rate
Chandler Corporate Center*	Chandler/Gilbert	Held Properties, Inc.	Corporate Center Investments, LLC	\$9,900,000	\$146.53	5/12	67,561	7.57%
Max at Kierland	Scottsdale Airpark	Artis REIT	Clarion Partners/Trammell Crow Company	\$79,000,000	\$305.83	5/12	258,312	6.50%

\* A Team Toci Transaction

## INDUSTRIAL AT A GLANCE

- Asking rental rates have pushed their way upward after flat lining for nearly two consecutive years. 2011 ended with optimism after taking in 6.1 million square feet of net absorption. Mid-year 2012 has already hurdled the halfway mark to keep pace, reaching 3.1 million feet.
- Similar to the sweethearts of the office market, Tempe, Scottsdale, the Southeast Valley, and Deer Valley have been leading the recovery in terms of rental rates. The bulk of the absorption is in the Southwest Valley through big box distribution centers.

INDUSTRIAL STATS • METROPOLITAN PHOENIX			
	Q2 2012	Q2 2011	Trend
Weighted Average Asking Rent (NNN)	\$0.58	\$0.57	↑
Overall Net Absorption in Quarter	1,942,240	748,105	↑
Overall Net Absorption YTD	2,528,122	2,208,728	↑
Direct Vacancy	11.7%	13.8%	↓
Overall Vacancy	12.2%	14.2%	↓
YTD Construction Completions	453,462	226,800	↑
Under Construction	80,000	0	↑

## INDUSTRIAL • SIGNIFICANT Q2 2012 SALE TRANSACTIONS

Project	Submarket	Buyer	Seller	Price	COE	\$/SF	SF	Cap Rate
Lincoln Commerce Park 2*	South Phoenix	Cornerstone	INVESCO/Lincoln Property Co.	\$26,100,000	4/12	\$77.53	336,665	7.85%
Granite Commerce Center	SW Phoenix	Crow Holdings	BlackRock, Inc.	\$24,525,000	4/12	\$60.23	407,203	6.20%

\* A Team Toci Transaction

## DEBT/EQUITY AT A GLANCE

- The markets may experience more lending demand in the coming months as the Fed encourages newly converted commercial banks to create more balance sheet loans. Increases in the cost of durable goods and home prices have helped balance the losses felt due to uncertainty in the EU. CMBS spreads tightened 5-10 bps in late June with benchmark bonds trading at 248 over swaps. Trepp reported that loan losses since January 2010 have been \$14.2B, or 42.5% of the 4,100 loans that have been liquidated.

BASE RATES			
	6/28/12	6/28/11	Trend
30-Day Libor	0.25%	0.24%	↑
<b>US-Treasury</b>			
5-Year Treasury	0.70%	0.73%	↓
10-Year Treasury	1.59%	1.64%	↓
Office Spreads:	Class A: T+305	Class B: T+320	
Industrial Spreads:	Class A: T+325	Class B: T+340	

Source: C&W Sonnenblick Goldman

## DEBT • RECENT CLOSINGS/QUOTES

Asset-Type	Type of Financing	Type of Lender	Rate/Return	Term	Amortization
Office	Floating	Bank	L + 250	3 Years	30-year, 3 years IO
Office	Fixed	CMBS	S + 350	5 Years	30-year, 2 years IO
Industrial	Fixed	Life Company	4.98%	15 Years	25-year

Source: C&W Sonnenblick Goldman

## METRO PHOENIX ECONOMIC INDICATORS

- April 2012 beat the strong year-end 2011 finish with 36,500 new jobs over the trailing twelve months.
- Employment gains are projected by Moody's | Economy.com to average 47,600 new jobs per year from 2012 to 2016.

METROPOLITAN PHOENIX			
	Apr 2012	Apr 2011	Trend
Total Employment	1,760,000	1,723,700	↑
Unemployment Rate	6.6%	8.1%	↓
Median Home Price	\$147,960	\$119,500	↑